



Group Restructuring

World Finance Forum

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Restructuring

- Simpler, leaner and more agile
- Net savings of £400m by end of 2020, implementation costs of c.£500m
- Proposed reduction of 4,600 FTEs
- Culture change through pace, simplicity, efficiency and empowerment
- Driving improving returns
- Transforming our business to support our world-leading technologies





Defining our ambitions

Faster, more agile to focus on customers

Build a simpler business

with a true performance culture

Three high-performing businesses

each delivering materially improved returns

Create or partner

in the best technology

Be the world's leading

industrial technology company

Mid-term ambition

>£1 CPS

15% CROIC



**To achieve this
we need to
optimise
our resources**

Our resources:

- **People** - develop a healthy organisation culture
- **Assets** - deliver sustainable & improved returns
- **Capital** - disciplined allocation





Accelerating culture change



“Now is the time for fundamental change”

Pace

- Empowering framework

Simplicity

- Clearer accountability

Efficiency

- Minimal duplication



Empowerment



**Will improve
productivity
and efficiency**



Efficiency

- **Overhead efficiency** - headcount reduction of 4,600
- **Capital efficiency** - improved investment rigour
- **Operational efficiency** - product cost reduction, optimisation of capacity

Maximising returns after significant period of investment



What success will look like

“The leading industrial technology company”

**Retaining & attracting
the best people**

**Disciplined investment in
innovative technology**

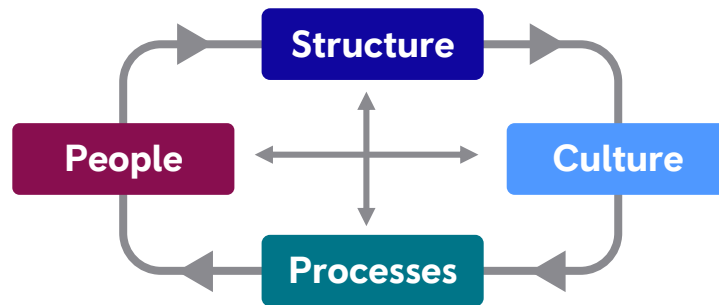
**Strong financial
performance**

**Market
leadership**

Efficient structure & operations

Our approach

- 'Fit for purpose'
- Fundamental change – not just structure
- Focused headcount reductions
- De-risking



Principles

- Pace
- Simplicity
- Efficiency
- Empowerment

Outcomes

Delivers improved sustainable returns

Achieves 'strategic resilience'



Our approach

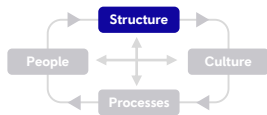
Diagnosis and planning



- Diagnostic phase complete
- Leadership committed
- Shifting to implementation
- Continuous improvement

Robust & rigorous approach:

- ✓ Led by new executive leadership team
- ✓ Combined Rolls-Royce and Alvarez & Marsal team
- ✓ Activity analysis – **stop, simplify, improve, automate**
- ✓ Structural analysis – spans & layers
- ✓ Zero-based budgeting
- ✓ Organisational Health diagnostic
- ✓ Employee opinion survey analysis



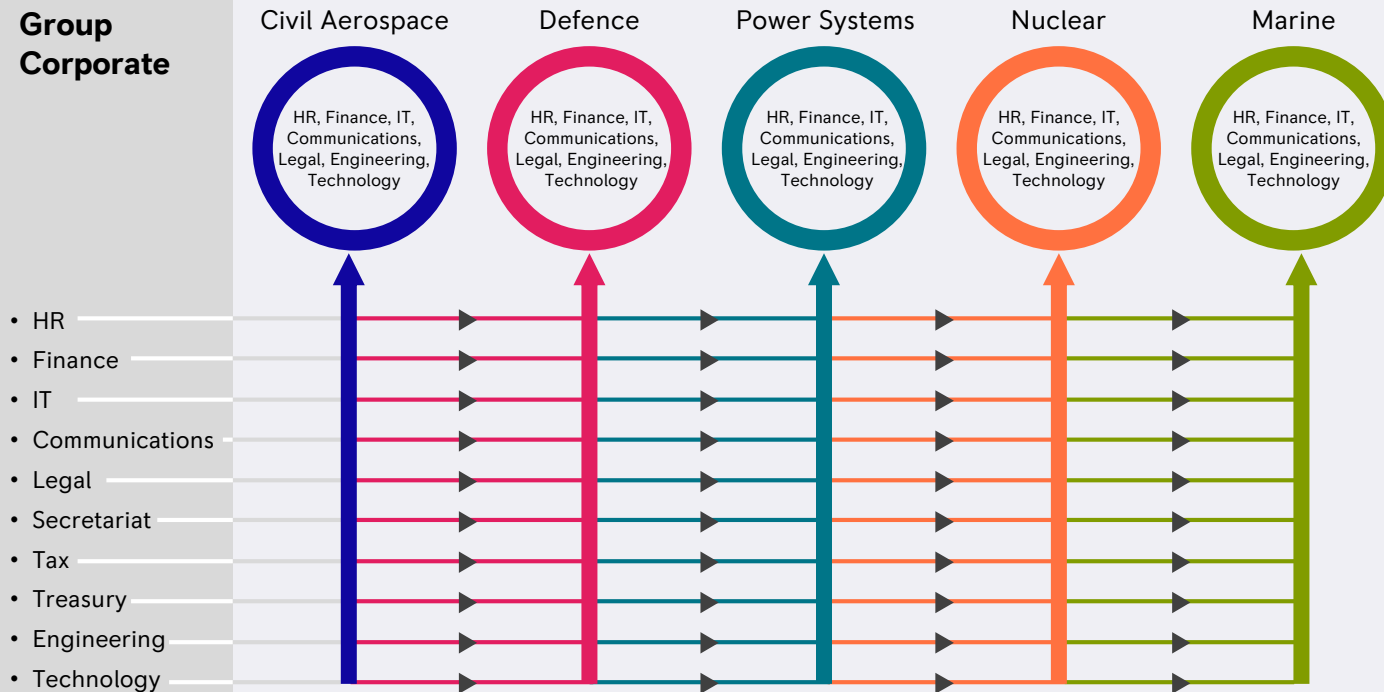
Our previous structure

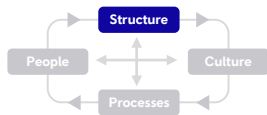
- Total c. £1.0bn costs re-charged to business units

Functionally driven

- Complex matrix
- Poor agility
- Opaque accountability
- Duplication

Group Corporate



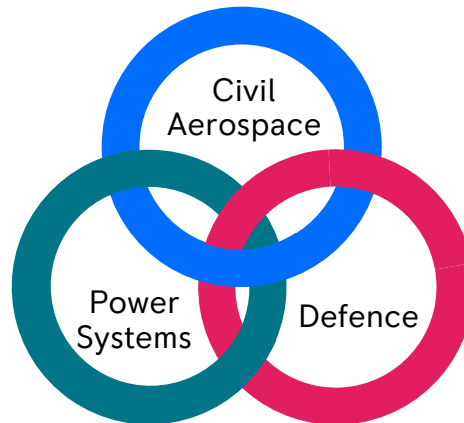


Our new structure

Business driven

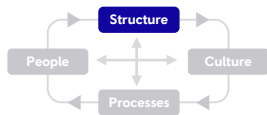
- Three focused businesses
- Group Business Services providing value-for-money pooled transaction services
- Supported by a lean head office

CUSTOMERS



GROUP BUSINESS SERVICES

Lean
HEAD
OFFICE



Three empowered business units

Civil Aerospace



Defence



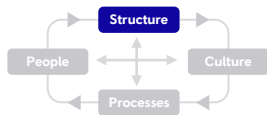
• Naval Marine • Submarines

Power Systems



• Civil Nuclear

- Simpler customer interface
- P&L accountability
- Control of support services required
- Exploiting inter-business synergies
- Faster, responsive, proactive decision making
- Productivity, quality and performance improvement



Supporting empowered business units

To achieve

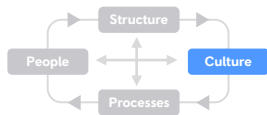
- Accountability
- Cost control & ownership
- Freedom within a framework
- Agility

GROUP BUSINESS SERVICES

- Transactional & professional services
- Customer-supplier mindset
- Continuous improvement
- Economies of scale
- Outsource, offshore & automate
- End-to-end process capability
- Scope for growth
- Global and diverse talent

Lean HEAD OFFICE

- Senior leadership
- Group strategy
- Disciplined capital allocation
- Group governance & assurance



Changing our culture

Achieved through our:

- Changing behaviours
- Performance & talent management
- Reward
- Processes & systems
- Changing leadership model

And all led by new leadership team

Preserve: pride, loyalty, consultative, inclusive, innovative

Revels in complexity

Simplicity & clarity

'Gold plating' and duplication

Agreed service levels and focus

Low productivity

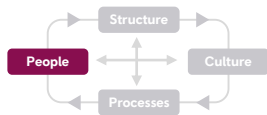
Performance management focus

Lack of accountability

Clear decision rights

Lack of cost awareness

Cost conscious mindset



Our people

Our success depends on having:

- The right people
- With the right skills
- In the right roles
- At the right time
- With right tools
- And the right leadership

Leadership

- New model
- New expectations
- New learning & training

Capabilities

Preserve:

- Deep functional & technical expertise
- Innovation

Build:

- Business acumen
- Programme management
- Electrical skills
- Data science

Talent

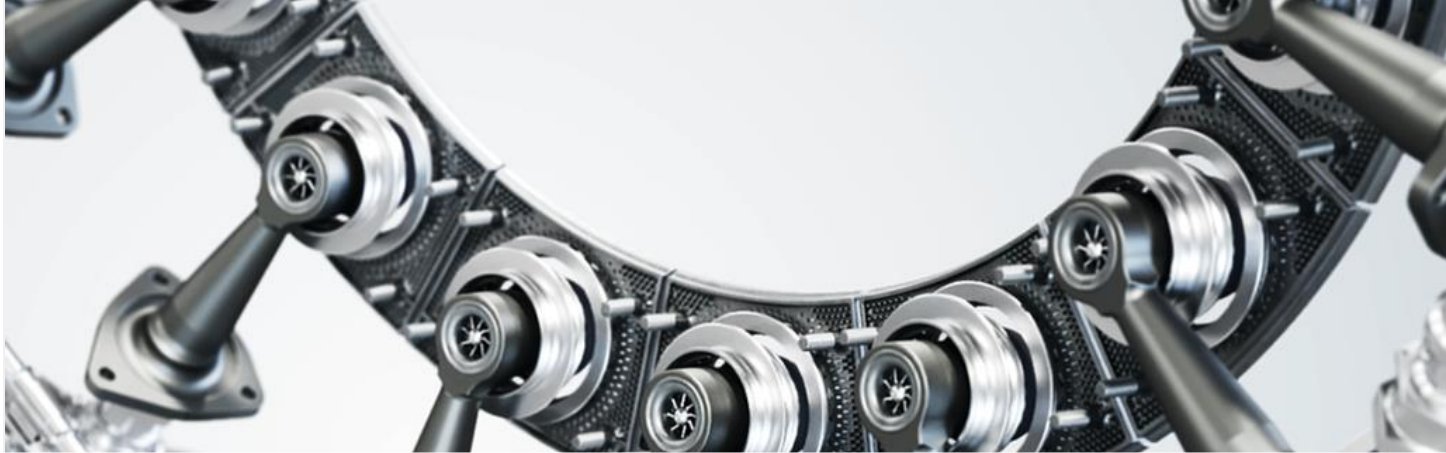
- Leadership accountability
- Proactive
- Less conservative
- Retain key talent

Diversity

- Bigger talent pool
- More creative
- Better business outcomes



Execution



Four must do's

- 01 Drive out unnecessary costs
- 02 Remove complex & duplicative processes
- 03 Develop a real performance culture
- 04 Ownership behaviour